

CREDIT OPINION

29 May 2020


Contacts

William Oh +1.415.274.1739
 VP-Senior Analyst
 william.oh@moodys.com

Michael Armstrong +1.312.706.9975
 Associate Lead Analyst
 michael.armstrong@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

Sussex (Village of) WI

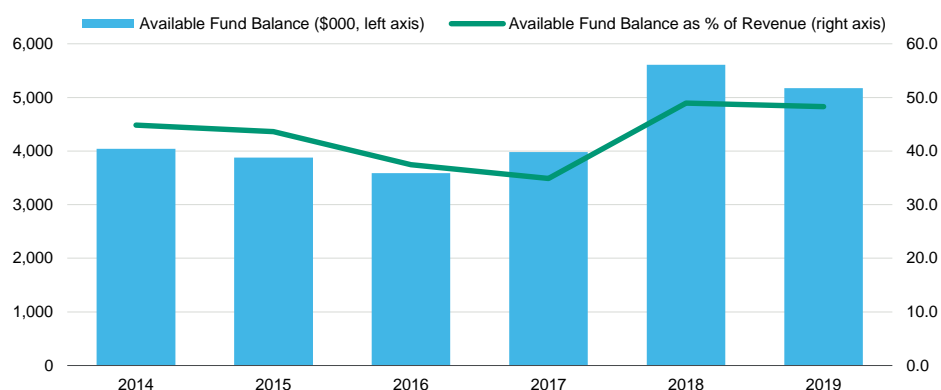
Update to credit analysis

Summary

The credit profile of [Sussex \(Village of\), WI](#) (Aa2) is characterized by the village's very strong fund balance and liquidity (see Exhibit 1), moderately sized tax base with strong wealth and income levels and modest unfunded pension burden. The village also has an above average debt burden resulting from improvements to accommodate a growing population and proactively upgrade and maintain infrastructure.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for the Village of Sussex. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the village changes, we will update our opinion at that time.

Exhibit 1

Reserves have increased to above average levels since 2017


Source: Village of Sussex audited financial statements, US Census Bureau, Moody's Investors Service

Credit strengths

- » Strong resident wealth and income
- » Solid financial operations supported by healthy reserves
- » Low unfunded pension liabilities

Credit challenges

- » High debt burden
- » Statutory restrictions on raising local revenue

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Substantial growth in the village's tax base or resident income levels
- » Significant moderation of the village's debt burden

Factors that could lead to a downgrade

- » Deterioration of the village's tax base
- » Growth in village's debt or pension burden
- » Significant declines in fund balance or liquidity

Key indicators

Exhibit 2

Sussex (Village of) WI	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$1,221,640	\$1,268,230	\$1,324,730	\$1,378,608	\$1,429,991
Population	10,680	10,716	10,763	10,791	10,791
Full Value Per Capita	\$114,386	\$118,349	\$123,082	\$127,755	\$132,517
Median Family Income (% of US Median)	143.3%	143.1%	137.4%	143.1%	143.1%
Finances					
Operating Revenue (\$000)	\$8,889	\$9,577	\$11,412	\$11,455	\$10,706
Fund Balance (\$000)	\$3,875	\$3,587	\$3,981	\$5,606	\$5,170
Cash Balance (\$000)	\$7,971	\$7,852	\$8,639	\$10,308	\$9,889
Fund Balance as a % of Revenues	43.6%	37.5%	34.9%	48.9%	48.3%
Cash Balance as a % of Revenues	89.7%	82.0%	75.7%	90.0%	92.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$30,002	\$36,826	\$38,498	\$40,163	\$38,448
3-Year Average of Moody's ANPL (\$000)	\$2,378	\$3,289	\$3,762	\$4,244	\$4,568
Net Direct Debt / Full Value (%)	2.5%	2.9%	2.9%	2.9%	2.7%
Net Direct Debt / Operating Revenues (x)	3.4x	3.8x	3.4x	3.5x	3.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.3%	0.3%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.3x	0.3x	0.3x	0.4x	0.4x

Source: Village of Sussex audited financial statements, US Census Bureau, Moody's Investors Service

Profile

The Village of Sussex is located in southeastern [Wisconsin](#) (Aa1 stable), approximately 19 miles northwest of the [City of Milwaukee](#) (A1 negative) and nine miles north of the [City of Waukesha](#) (Aa2). The village encompasses eight square miles and serves an estimated 11,000 residents.

Detailed credit considerations

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Economy and tax base: modestly sized residential tax base near Milwaukee

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail and oil and gas could suffer particularly severe impacts. Sussex is not highly exposed to any of these sectors and officials report a very limited slowdown in some economic activity throughout the village. Furthermore, the village is home to Sussex IM, an injection molding firm that employs 340 individuals and manufactures plastic hand sanitizer containers. The company is expanding to meet increased demand.

While many village residents commute to Milwaukee, Sussex is home to notable employers, including the headquarters of printing company [Quad/Graphics Inc.](#) (B1 negative; 2.9% of 2019 assessed valuation; 2,400 employees). The village's median family income is a strong 143% of the national median and its wealth, measured by a full value per capita of \$133,000, is above average. The village's poverty rate is low at 5.8%, trailing both the state and national rates of 11.9% and 14.1%, respectively.

Financial operations and reserves: ample and stable financial position

The village's history of solid financial operations are evidenced by healthy reserves and will remain stable given ongoing development in the village and management's conservative financial practices. Fund balance and cash balance have long exceeded the village's formal policy to maintain at least three months of expenditures in reserve. Available operating fund balance (inclusive of the general and debt service funds) declined by \$436,000 to \$5.2 million, or a healthy 48.3% of operating revenue, in fiscal 2019. The use of reserves in 2019 was driven by planned transfers and capital spending. The village reports no plans to significantly change its current reserve position and adopted a balanced budget for the current fiscal 2020.

LIQUIDITY

The village's fiscal 2019 net cash across operating funds totaled \$9.9 million, or a very healthy 92.4% of operating revenue. The village's cash is higher than fund balance resulting from property tax collections made on behalf of other taxing entities within the village's borders.

Debt and pensions: elevated debt burden; modest pension burden

The village's elevated debt burden is a credit challenge, but fixed costs will remain a manageable share of the operating budget. Following a planned issuance in June 2020, the village's direct net debt burden will be \$45.3 million, or 3.2% of full value and 4.2x fiscal 2019 operating revenue. The district has limited future debt plans, including a modest issuance later in 2020 that will be secured by stormwater utility revenue.

Mitigating the above average debt burden is the village's modest pension burden. Fixed costs consist almost entirely of debt service payments, but also include the village's modest pension contributions requirements. In fiscal 2019 total fixed costs were \$3.1 million, or 28.6% of operating revenue.

DEBT STRUCTURE

The village's debt consists of fixed rate and long-term general obligation unlimited tax (GOULT) bonds and notes. Principal amortization is below average with 59% retired in 10 years. Debt service gradually increases from \$4 million in 2021 to maximum annual debt service of \$4.3 million in 2024 and then descends until the final maturity in 2039. All of the village's \$47.1 million in GOULT debt is secured by the village's full faith and credit pledge to levy a designated property tax that is unlimited as to rate or amount. Of the village's GOULT debt, \$2.6 million is supported by net utility revenue.

DEBT-RELATED DERIVATIVES

The village is not a party to any interest rate swap or derivative agreements.

PENSIONS AND OPEB

The village participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee retirement systems in the country, with statewide employer contributions to WRS in 2017 totaling 107.7% of the amount needed to tread water.¹

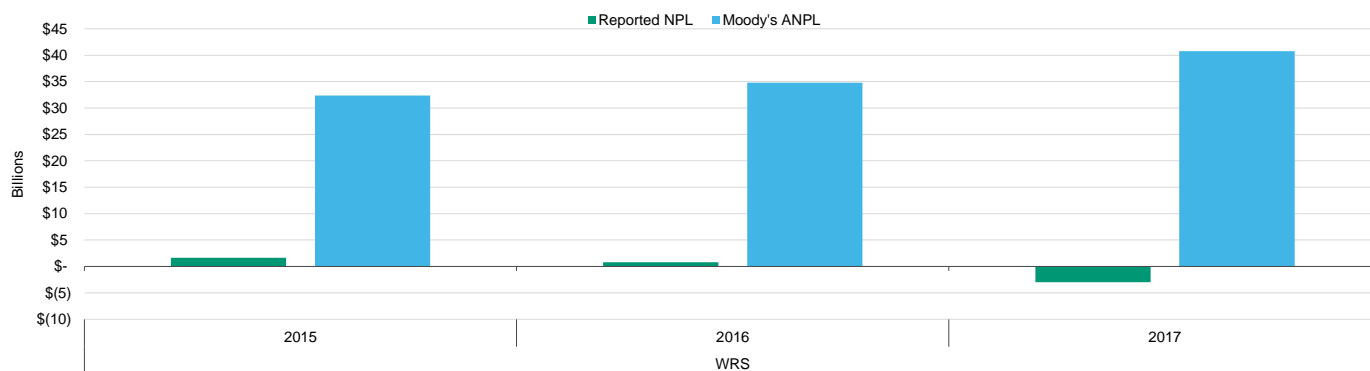
The village's adjusted net pension liability (ANPL) was \$4.7 million in 2019, down from \$4.9 million in 2018, bringing the three-year average to \$4.6 million, or 0.4x operating revenue and 0.3% of full value. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported net pension liability (NPL), based on the plan's 7.2% discount rate, was \$471,000 in fiscal 2019.

Growth in the Moody's ANPL has been driven largely by falling market discount rates, however the plan's NPL has benefited from strong investment performance in recent years, with WRS reported a net pension asset as of fiscal 2017 (See Exhibit 3).

The village does not offer other post employment benefits (OPEB).

Exhibit 3

Wisconsin Retirement System remains well-funded on a reported basis



Source: State of Wisconsin

ESG considerations

[Similar to the overall US local government sector](#), the Village of Sussex has low exposure to environmental risks. According to data from Moody's affiliate Four Twenty Seven, the village's aggregate exposure to the projected rate of change of five climate risk factors ranks average for the 3,142 municipalities it tracks. Of the climate risks evaluated, the village's highest risk is related to water stress or an increase in drought-like patterns, testing the ability of water supply to meet demand. These changes will have the greatest impact on water intensive facilities, such as those involved in manufacturing and energy production. The [Sussex, WI Water Enterprise's](#) (Aa3) largest customer, Quad/Graphics, Inc., only comprises 3.5% of water billings.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for the Village of Sussex. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the village changes, we will update our opinion at that time.

Wisconsin cities have an Institutional Framework score of "A," which is moderate. The sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies except to capture amounts represented by net new construction growth. Revenue and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Many cities use tax increment districts (TIDs) to attract economic development, often issuing debt to fund initial infrastructure in undeveloped areas. While tax increment districts are ultimately expected to generate revenue sufficient to cover initial city outlay, cities are exposed to economic downturns which could halt development.

The village is primarily funded by property taxes, which made up 68% of operating revenue in fiscal 2019. Property tax revenue grew by a robust compound annual growth rate of 5.3% over the last five years despite levy limits because the city has significant net new construction, which is exempt from the limits. The district also operates two TIDs, one that was created in 2013 and another more recently in 2018. Both have deficit fund balance positions because of interfund borrowing, but the older TID is generating tax increment and beginning to gradually repay its interfund loans. The younger TID is still incurring capital expenses and is not yet generating tax increment or repaying its interfund loans. Neither is exerting pressure on the general fund or other operations of the village.

Rating methodology and scorecard factors

The [US Local Government General Obligation Debt](#) methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

Sussex (Village of) WI

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$1,429,991	Aa
Full Value Per Capita	\$132,517	Aa
Median Family Income (% of US Median)	143.1%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	48.3%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	10.6%	Aa
Cash Balance as a % of Revenues	92.4%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	16.5%	Aa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	3.2%	A
Net Direct Debt / Operating Revenues (x)	4.2x	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.3%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.4x	Aa
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.

Source: US Census Bureau, Moody's Investors Service

Endnotes

- Employer contributions that tread water equal the sum of current year service cost and interest on reported net pension liabilities at the start of the year, using reported actuarial assumptions. If plan assumptions are met exactly, contributions equal to the tread water indicator will prevent the reported net pension liabilities from growing. Net liabilities may decrease or increase in a given year because of factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return.

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454